

Message Text

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64

ACTION EB-11

INFO OCT-01 NEA-14 ISO-00 AID-20 CIAE-00 COME-00 FRB-02

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R 091256Z JUL 74

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 2574

UNCLAS NEW DELHI 9136

E.O. 11652: N/A

TAGS: BEXP, IN

SUBJECT: STOCK MARKET REACTION TO COMPANIES ORDINANCE 1974

FOLLOWING SENT ACTION NEW DELHI FROM BOMBAY JULY 9TH
RPTD TO YOU.

QUOTE:

BOMBAY 1527

E. O. 11652: N/A

TAGS: BEXP, IN

SUBJ: STOCK MARKET REACTION TO COMPANIES ORDINANCE 1974

1. THOUGH STOCK MARKETS IN AHMDABAD AND BOMBAY WERE
CLOSED JULY 8, GOI'S JULY 7 ORDINANCE RESTRICTING DISTRIBU-
TION OF DIVIDENDS AT 12 PERCENT OF FACE VALUE OR ONE-THIRD
OF NET PROFIT (WHICHEVER IS LESS), FOR TWO YEARS, APPARENTLY
SEVERELY AFFECTED INVESTOR ATTITUDES AND BLUE CHIPS DIPPED
BY ABOUT 20 PERCENT IN KERBSIDE DEALS. FURTHERDIP NOT
RULED OUT. WE ARE TOLD BOMBAY STOCK EXCHANGE PLANNING
REGULATORY MEASURES TO STEM POSSIBLE PAYMENT CRISIS WITH
CLOSURE OF EXCHANGE FOR FEW DAYS A DISTINCT POSSIBILITY.

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CONCURRENTLY, STOCK EXCHANGE SUBMITTING MEMORANDUM TO THE

GOI PROTESTING IMPOSITION ON RESTRICTION.

2. WITH CURRENT YIELD RATES ON MOST QUOTED SHARES ALREADY DOWN 12 PERCENT, THE MARKET IS ALMOST SURE TO CONTINUE DOWNWARD. SUBSCRIPTIONS TO TWELVE NEW ISSUES SCHEDULED FOR NEXT FEW WEEKS LIKELY TO BE AFFECTED BY MARKET NERVOUSNESS. UNDERWRITERS (EXCONAL ISSUES CAN NTR#MARKET WITHOUT THEIR ASSISTANCE) ARE HESITANT TO TAKE-UP NEW ISSUES FOR THE TIME BEING. WHILE GOI-OWNED INSTITUTIONAL INVESTOR LIKE THE UNIT TRUST OF INDIA, LIFE INSURANCE CORPORATION AN INDUSTRIAL DEVELOPMENT BANK OF INDIA PUTTING UP A BRAVE FRONT IN SUPPORT OF THE MEASURE, THEY ARE ALSO CONCERNED WITH THE FATE OF THEIR INVESTMENTS, PARTICULARLY THOSE PURCHASED FROM MARKET. ONE STOCK BROKER, HOWEVER, REPORTED THAT UNIT TRUST AND LIFE INSURANCE CORPORATION MAY INCREASE THEIR PURCHASES TO TAKE ADVANTAGE OF BEARISH MARKET.

3. WHILE STOCK MARKET ANTICIPATED A DIVIDEND FREEZE, IT WAS SURPRISED BY STRINGENCY OF THE MEASURE WHICH IT CONSIDERS "HIGHLY ARBITRARY AND DISCRIMINATORY" WHEN COMPARED WITH RESTRICTIONS ON WAGES AND SALARIES.

4. US-AFFILIATED FIRM WG FORGE AND ALLIED INDUSTRIES LTD., BOMBAY (AMERICAN PARTICIPANT: WYMAN-GORDON COMPANY, WORCESTER, MASS.) IS AMONG FIRMS CAUGHT IN CURRENT TURMOIL. IT IS ENTERING MARKET JULY 24 WITH AN EQUITY ISSUE OF RS.13.8 MILLION OF WHICH RS.5.4 MILLION IS OFFERED FOR PUBLIC SUBSCRIPTION. MARKET SOURCES HOWEVER BELIEVE THAT WG ISSUE WILL BE FULLY SUBSCRIBED, THOUGH IT WOULD HAVE BEEN OVERSUBSCRIBED SEVERAL FOLDS IN NORMAL TIMES.

5. WE WILL REPORT FURTHER DEVELOPMENTS AS THEY OCCUR.
SIGNED BANE.
UNQUOTE SCHNEIDER

NOTE BY OCT: NEW DELHI 9136 #AS RECEIVED.

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